

FORM ADV**Uniform Application for Investment Adviser Registration**

Part II - Page 1

OMB APPROVAL	
OMB Number:	3235-0049
Expires:	May 31, 1997
Estimated average burden hours per response.....	9.01

Name of Investment Adviser:

Water Street Advisers, Inc.

Address:	(Number and Street)	(City)	(State)	(Zip Code)	Area Code:	Telephone Number
	1 North Lake Drive	Barrington	RI	02806	(401)	247-9149

This part of Form ADV gives information about the investment adviser and its business for the use of clients.
The information has not been approved or verified by any governmental authority.

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(Schedules A, B, C, D and E are included with Part I of this Form, for the use of regulatory bodies, and are not distributed to clients.)

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06-16-06

Definitions for Part II

Related person -- Any officer, director or partner of applicant or any person directly or indirectly controlling, controlled by, or under common control with the applicant, including any non-clerical, non-ministerial employee.

Investment Supervisory Services -- Giving continuous investment advice to a client (or making investments for the client) based on the individual needs of the client. Individual needs include, for example, the nature of other client assets and the client's personal and family obligations.

1. A. Advisory Services and Fees. (check the applicable boxes)		For each type of service provided, state the approximate % of total advisory billings from that service. (See instructions below.)																																					
<p>Applicant:</p> <table> <tr> <td><input checked="" type="checkbox"/></td> <td>(1) Provides investment supervisory services.....</td> <td>100</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(2) Manages investment advisory accounts not involving investment supervisory services.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(3) Furnishes investment advice through consultations not included in either service described above.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(4) Issues periodicals about securities by subscription.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(5) Issues special reports about securities not included in any service described above.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(7) On more than an occasional basis, furnishes advice to clients on matters not involving securities.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(8) Provides a timing service.....</td> <td>_____</td> <td>%</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(9) Furnishes advice about securities in any manner not described above.....</td> <td>_____</td> <td>%</td> </tr> </table> <p>(Percentages should be based on applicant's last fiscal year. If applicant has not completed its first fiscal year, provide estimates of advisory billings for that year and state that the percentages are estimates.)</p>				<input checked="" type="checkbox"/>	(1) Provides investment supervisory services.....	100	%	<input type="checkbox"/>	(2) Manages investment advisory accounts not involving investment supervisory services.....	_____	%	<input type="checkbox"/>	(3) Furnishes investment advice through consultations not included in either service described above.....	_____	%	<input type="checkbox"/>	(4) Issues periodicals about securities by subscription.....	_____	%	<input type="checkbox"/>	(5) Issues special reports about securities not included in any service described above.....	_____	%	<input type="checkbox"/>	(6) Issues, not as part of any service described above, any charts, graphs, formulas, or other devices which clients may use to evaluate securities.....	_____	%	<input type="checkbox"/>	(7) On more than an occasional basis, furnishes advice to clients on matters not involving securities.....	_____	%	<input type="checkbox"/>	(8) Provides a timing service.....	_____	%	<input type="checkbox"/>	(9) Furnishes advice about securities in any manner not described above.....	_____	%
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B. Does applicant call any of the services it checked above financial planning or some similar term?		Yes	No																																				
<input type="checkbox"/> <input checked="" type="checkbox"/>																																							
C. Applicant offers investment advisory services for: (check all that apply)																																							
<table> <tr> <td><input checked="" type="checkbox"/></td> <td>(1) A percentage of assets under management</td> <td><input type="checkbox"/></td> <td>(4) Subscription fees</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(2) Hourly charges</td> <td><input type="checkbox"/></td> <td>(5) Commissions</td> </tr> <tr> <td><input type="checkbox"/></td> <td>(3) Fixed fees (not including subscription fees)</td> <td><input type="checkbox"/></td> <td>(6) Other</td> </tr> </table>				<input checked="" type="checkbox"/>	(1) A percentage of assets under management	<input type="checkbox"/>	(4) Subscription fees	<input type="checkbox"/>	(2) Hourly charges	<input type="checkbox"/>	(5) Commissions	<input type="checkbox"/>	(3) Fixed fees (not including subscription fees)	<input type="checkbox"/>	(6) Other																								
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D. For each checked box in A above, Describe on Schedule F:																																							
<ul style="list-style-type: none"> the services provided, including the name of any publication or report issued by the adviser on a subscription basis or for a fee applicant's basic fee schedule, how fees are charged and whether its fees are negotiable when compensation is payable, and if compensation is payable before service is provided, how a client may get a refund or may terminate an investment advisory contract before its expiration date 																																							
2. Types of Clients – Applicant generally provides investment advice to: (check those that apply)																																							
<input checked="" type="checkbox"/> A. Individuals <input type="checkbox"/> B. Banks or thrift institutions <input type="checkbox"/> C. Investment companies <input type="checkbox"/> D. Pension and profit sharing plans		<input type="checkbox"/> E. Trusts, estates, or charitable organizations <input checked="" type="checkbox"/> F. Corporations or business entities other than those listed above <input type="checkbox"/> G. Other (describe on Schedule F)																																					

3. Types of Investments. Applicant offers advice on the following: (check those that apply)

- | | | |
|--|-------------------------------------|--|
| A. Equity Securities | <input type="checkbox"/> | H. United States government securities |
| (1) exchange-listed securities | <input type="checkbox"/> | I. Options contracts on: |
| (2) securities traded over-the-counter | <input type="checkbox"/> | (1) securities |
| (3) foreign issuers | <input type="checkbox"/> | (2) commodities |
| B. Warrants | <input type="checkbox"/> | J. Futures contracts on: |
| C. Corporate debt
(other than commercial paper) | <input type="checkbox"/> | (1) tangibles |
| D. Commercial paper | <input type="checkbox"/> | (2) intangibles |
| E. Certificates of Deposit | <input type="checkbox"/> | K. Interests in partnerships investing in: |
| F. Municipal securities | <input type="checkbox"/> | (1) real estate |
| G. Investment company securities:
(1) variable life insurance | <input type="checkbox"/> | (2) oil and gas interests |
| (2) variable annuities | <input checked="" type="checkbox"/> | (3) other (explain on Schedule F) |
| (3) mutual fund shares | <input type="checkbox"/> | L. Other (explain on Schedule F) |

4. Methods of Analysis, Sources of Information, and Investment Strategies.

A. Applicant's security analysis methods include: (check those that apply)

- | | |
|---|--|
| (1) <input type="checkbox"/> Charting | (4) <input type="checkbox"/> Cyclical |
| (2) <input checked="" type="checkbox"/> Fundamental | (5) <input type="checkbox"/> Other (explain on Schedule F) |
| (3) <input checked="" type="checkbox"/> Technical | |

B. The main sources of information applicant uses include: (check those that apply)

- | | |
|---|--|
| (1) <input checked="" type="checkbox"/> Financial newspapers and magazines | (5) <input type="checkbox"/> Timing services |
| (2) <input type="checkbox"/> Inspections of corporate activities | (6) <input checked="" type="checkbox"/> Annual reports, prospectuses, filings with the
Securities and Exchange Commission |
| (3) <input checked="" type="checkbox"/> Research materials prepared by others | (7) <input type="checkbox"/> Company press releases |
| (4) <input type="checkbox"/> Corporate rating services | (8) <input type="checkbox"/> Other (explain on Schedule F) |

C. The investment strategies used to implement any investment advice given to clients include: (check those that apply)

- | | |
|--|--|
| (1) <input checked="" type="checkbox"/> Long term purchases
(securities held at least a year) | (5) <input type="checkbox"/> Margin transactions |
| (2) <input checked="" type="checkbox"/> Short term purchases
(securities sold within a year) | (6) <input type="checkbox"/> Option writing, including covered options,
uncovered options or spreading strategies |
| (3) <input type="checkbox"/> Trading (securities sold within 30 days) | (7) <input type="checkbox"/> Other (explain on Schedule F) |
| (4) <input type="checkbox"/> Short sales | |

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Part II - Page 4

Applicant:
Water Street Advisers, Inc.

SEC File Number:
801-

Date:
06-16-06

5. Education and Business Standards.

Are there any general standards of education or business experience that applicant requires of those involved in determining or giving investment advice to clients?.....

Yes No

(If yes, describe these standards on Schedule F.)

6. Education and Business Background.

For:

- each member of the investment committee or group that determines general investment advice to be given to clients, or
- if the applicant has no investment committee or group, each individual who determines general investment advice given to clients (if more than five, respond only for their supervisors)
- each principal executive officer of applicant or each person with similar status or performing similar functions.

On Schedule F, give the:

- name formal education after high school
- year of birth business background for the preceding five years

7. Other Business Activities (check those that apply)

- A. Applicant is actively engaged in a business other than giving investment advice.
- B. Applicant sells products or services other than investment advice to clients.
- C. The principal business of applicant or its principal executive officers involves something other than providing investment advice.

(For each checked box describe the other activities, including the time spent on them, on Schedule F.)

8. Other Financial Industry Activities or Affiliations. (check those that apply)

- A. Applicant is registered (or has an application pending) as a securities broker.
- B. Applicant is registered (or has an application pending) as a futures commission merchant, commodity pool operator or commodity trading adviser.
- C. Applicant has arrangements that are material to its advisory business or its clients with a related person who is a:
 - (1) broker-dealer (7) accounting firm
 - (2) investment company (8) law firm
 - (3) other investment adviser (9) insurance company or agency
 - (4) financial planning firm (10) pension consultant
 - (5) commodity pool operator, commodity trading adviser or futures commission merchant (11) real estate broker or dealer
 - (6) banking or thrift institution (12) entity that creates or packages limited partnerships

(For each box in C. on Schedule F identify the related person and describe the relationship and the arrangements.)

D. Is applicant or a related person a general partner in any relationship in which clients are solicited to invest.....

Yes No

(If yes, describe on Schedule F the partnerships and what they invest in.)

Applicant: Water Street Advisers, Inc.	SEC File Number: 801-	Date: 06-16-06
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9. Participation or Interest in Client Transactions.

Applicant or a related person: (check those that apply)

- A. As principal, buys securities for itself from or sells securities it owns to client.
- B. As broker or agent effects securities transactions for compensation for any client.
- C. As broker or agent for any person other than a client effects transactions in which client securities are sold to or bought from a brokerage customer.
- D. Recommends to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest.
- E. Buys or sells for itself securities that it also recommends to clients.

(For each box checked, describe in Schedule F when the applicant or related person engages in these transactions and what restrictions, internal procedures, or disclosures are used for conflicts of interest in those transactions.)

10. Conditions for Managing Accounts. Does the applicant provide investment supervisory services, manage investment advisory accounts or hold itself out as providing financial planning or some similarly termed services and impose a minimum dollar value of assets or other conditions for starting or maintaining an account? Yes No

(If yes, describe on Schedule F.)

11. Review of Accounts. If applicant provides investment supervisory services, manages investment advisory accounts, or holds itself out as providing financial planning or some similarly termed services:

- A. Describe below the reviews and reviewers of the accounts. For reviews, include their frequency, different levels, and triggering factors. For reviewers, include the number of reviewers, their titles and functions, instructions they receive from applicant on performing reviews, and number of accounts assigned each.

Client accounts are reviewed on an ongoing basis by James Charnley, President, Water Street Advisers.

Client accounts include investment portfolios managed for individual or retail clients. These accounts are reviewed on a quarterly basis for the purpose of evaluating the performance of the fund investments and asset allocation strategy utilized within the client's portfolio.

The client receives a quarterly written report of this evaluation. This report includes an overview of economic and market conditions, an evaluation of the portfolio's investment allocation strategy and the securities held within that portfolio, as well as recommendations as to changes to that allocation strategy or the securities held in light changes in the client's investment preferences.

Client accounts also include corporate or institutional clients. These accounts are also reviewed quarterly. The services provided these clients do not commonly include an asset allocation strategy, and so the quarterly written report to these clients contains an overview of economic and market conditions, an evaluation of the securities held within that portfolio, as well as recommendations as to changes to the securities held in light changes in the client's investment preferences.

- B. Describe below the nature and frequency of regular reports to clients on their accounts.

In addition to the Quarterly Reports, following each twelve-month anniversary date, Water Street surveys each client regarding their investment needs, financial resources and tolerance for investment risk and returns a written report back to that client.

Clients have the option of contacting Water Street Advisers at any time with questions or changes to their investment preferences, portfolio allocation strategies, investments choices or investment policies, and will receive a written confirmation from Water Street Advisers of any recommendations arising from these ad hoc requests.

All surveys, portfolio reviews, evaluations, policy statements and reports are written by James Charnley, Water Street Advisers.

Applicant:
Water Street Advisers, Inc.

SEC File Number:
801-

Date:
06-16-06

12. Investment or Brokerage Discretion.

A. Does Applicant or any related person have authority to determine, without obtaining specific client consent, the:

- (1) securities to be bought or sold?.....
- (2) amount of the securities to be bought or sold?.....
- (3) broker or dealer to be used?.....
- (4) commission rates paid?.....

Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>
Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>
Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>
Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>

B. Does Applicant or a related person suggest brokers to clients?

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>

For each yes answer to A describe on Schedule F any limitations on the authority. For each yes to A(3), A(4) or B, describe on Schedule F the factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for products and research services received.

13. Additional Compensation.

Does the applicant or a related person have any arrangements, oral or in writing, where it:

- A. is paid cash by or receives some economic benefit (including commissions, equipment or non-research services) from a non-client in connection with giving advice to clients?.....
- B. directly or indirectly compensates any person for client referrals?.....

Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>
Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>

(For each yes, describe the arrangements on Schedule F.)

14. Balance Sheet. Applicant must provide a balance sheet for the most recent fiscal year on Schedule G if applicant:

- has custody of client funds or securities; or
- requires prepayment of more than \$500 in fees per client and 6 or more months in advance

Has applicant provided a Schedule G balance sheet?.....

Yes	No
<input type="checkbox"/>	<input checked="" type="checkbox"/>

**Schedule F of
Form ADV
Continuation Sheet for Form ADV Part II**

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06/16/06

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

Item of Form (identify)	Answer
Advisory Fees And Services I (d)	<p>Water Street creates and manages investment portfolios with the objective of generating a market return at a below-market risk. I have developed processes to deliver this service at a cost significantly below that of my competitors. The value of an investment portfolio is calculated in terms of its investment performance -- [investment returns, minus management costs divided by investment risk]. My goal is to provide superior investment performance through the consistent application to these two objectives for low risk and low cost.</p> <p>For retail and individual accounts, portfolio management is a two-step process. First an allocation strategy is identified based on the investor's preferences for risk. I select for asset allocation strategies designed to lower investment risk through diversification -- my portfolios are balanced across the breadth of the \$40 trillion global market for public securities.</p> <p>Next, investments are selected to populate that strategy. I select for investments designed to generate a pattern of investment performance identifiable with that of a "value-investor" -- the characteristic signature of a value-investor being the ability to consistently generate a market return while operating at a below-market risk.</p> <p>I have developed processes to accomplish these two selection activities more efficiently than my competitors. These processes rest on insights regarding the operation of the securities markets that are unique and novel -- and because of this these processes are protected by pending patents.</p> <p>Value-investing is a method of investment selection popularized by Benjamin Graham in <u>The Intelligent Investor</u>, a book he first published in 1949¹. It is the strategy of buying an undervalued asset -- a security whose intrinsic value is below its price. The signature of this strategy is an investment portfolio that consistently operates at a below-market risk -- this signature being most prominent in the riskiest market sectors. Graham described the key to establishing this signature as coming from the "margin-of-safety" gained from holding an undervalued portfolio -- a resilience against the pricing volatility normally found within the market that will materialize from acquiring portfolio assets at a below-market price.</p> <p>For providers of portfolio management services -- investment professionals -- value-investing has never been a popular discipline. The research expense associated with the strategy can be very high -- involving the fundamental analysis of the financial information for individual securities issues. Implementing such a strategy across the population of securities available within the global markets can be prohibitive.</p> <p>For purchasers of portfolio management services -- investors -- value-investing provides the opportunity to reap the higher returns normally available within the riskier investment sectors at a tolerable level of investment risk. It is also, by its nature, a buy-and-hold strategy. The investments selected for a Water Street portfolio will be held for a minimum of five years ("Investment Period").</p> <p>This means that value-investing is also a "least-cost" strategy -- once selected, the investments within the value-investing portfolio require little active management.</p> <p>My fee for creating and managing such an investment portfolio is assessed quarterly at 0.025% of beginning-quarter assets (0.10% annual fee) -- about 1/10 the industry-average for retail and individual accounts.</p>

Complete amended pages in full, circle amended items and file with execution page (page 1).

¹ Graham, Benjamin, The Intelligent Investor, Harper & Row, New York, New York, 1949.

**Schedule F of
Form ADV
Continuation Sheet for Form ADV Part II**

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06/16/06

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: Water Street Advisers, Inc.	IRS Empl. Ident. No.: 05-0482598
Item of Form (identify)	Answer
Advisory Fees And Services 1 (d) (page 2, continued)	<p>I also provide for price breaks for these services that are related to portfolio size:</p> <ul style="list-style-type: none"> For portfolios with a beginning Investment Period balance of greater than \$20,000,000 the fee for creating and managing an investment portfolio is assessed quarterly at 0.0125% of beginning-quarter assets (0.05% annual fee) – about 1/20 the industry-average for retail and individual accounts. For portfolios with a beginning Investment Period balance of greater than \$100,000,000 the fee for creating and managing an investment portfolio is capped at a level calculated as 0.025% *\$100,000,000 = \$50,000. The quarterly fee for these portfolios is \$12,500. <p>The key to this fee advantage remains avoidance of the initial research costs, and I avoid this expense by investing in managers that have already absorbed it. Mutual funds are managed investment portfolios that offer public shares. Based on characteristics of past investment performance, I select for that small segment of managers from within the mutual funds market -- about 1% of the fund-manager population by my estimate – that will be pursuing a value-investing strategy at any given point in time.</p> <p>This selection process arises from an insight regarding the characteristics of the funds market that runs counter to conventional wisdom. I have uncovered a crucial, although fairly obvious, error-of-omission in the record of conventional wisdom. Because of this, my selection methodology is unique and novel – and the proprietary processes that underlie it are protected by pending patents.</p> <p>Further information concerning the rationale for these patent filings and the processes they protect is contained later in this Form, under the heading "Methods of Investment Analysis" 4(a).</p> <p>I assemble these managers in a portfolio using the tenets of <i>Modern Portfolio Theory (MPT)</i>.² Awarded the Nobel Prize in 1964, this thesis contains the mathematical proof that holding a diverse risk optimizes the value of a portfolio. To create this diverse risk, I divide the global market for public securities into (5) market sectors – groupings of investments that in the past have exhibited uniquely similar patterns of risk – and then select for a strategy to allocate the portfolio assets across the mutual funds that populate these five market sectors.</p> <p>My preferred strategy selection is for a balanced portfolio – assigning equal weights of portfolio assets across all market sectors. This strategy runs counter to industry practice that emphasizes selecting for an unbalanced concentration of assets within one or more market sectors based on some type of predictive process. A favorite method among practitioners for this process is the use of the algorithm contained within the mathematical proof of MPT to identify a subset of asset allocation alternatives that, for a past time period, have generated a level of investment performance superior to their peers. The selection process is basically a prediction that market conditions found in the past will persist into the future.</p>

Complete amended pages in full, circle amended items and file with execution page (page 1).

² Markowitz, Harry, Portfolio Selection: Efficient Diversification of Investments, John Wiley & Sons, Inc., New York, New York, 1959.

**Schedule F of
Form ADV
Continuation Sheet for Form ADV Part II**

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06/16/06

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: Water Street Advisers, Inc.	IRS Empl. Ident. No.: 05-0482598				
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%; text-align: left; padding: 2px;">Item of Form (identify)</th> <th style="width: 85%; text-align: center; padding: 2px;">Answer</th> </tr> </thead> <tbody> <tr> <td style="width: 15%; padding: 2px;">Advisory Fees And Services 1 (d) (page 3, continued)</td> <td style="width: 85%; padding: 2px;"> <p>My bias toward balanced portfolios comes from the analysis of the relative performance of whole populations of allocation alternatives across a series of five-year investment periods beginning in 1961. Based on this 45-year history, selecting for an allocation strategy on the prediction that market conditions will not change has been an unfortunate choice. It has been characteristic of markets over this time period that their conditions do change -- and that investors using the MPT algorithm would have been more successful in avoiding the lowest quartile of performers within a population of allocation alternatives for a subsequent five-year period if they had thrown a dart.</p> <p>In general, over this period, there has been no way to significantly better the performance of a balanced portfolio -- absent some special ability to predict the future. Additionally, my findings have been the incremental gain in investment returns arising from the activity of rebalancing ones portfolio over short time periods has not been large enough to compensate for the trading expense of such rebalancing over this timeframe.</p> <p>With this recent history in mind, my intentions will be to leave the original allocations made to create a balanced portfolio in place for at least five years ("Investment Period") -- and if these original allocations have not shifted appreciably, to leave them in place for further 5-year Investment Periods until such time as they do.</p> <p>This avoidance of the "busy-work" commonly associated with allocation management is also a "least-cost" strategy. The confidence to implement such a strategy comes from the capability to apply a standard measure of relative performance for whole populations of allocation alternatives across multiple market cycles and diverse market conditions. This is a capability that has not been considered by the investment industry to-date -- and because of this, the processes underlying this capability are novel and unique. They are protected by pending patents.</p> <p>Further information concerning the rationale for these patent filings and the processes they protect is contained later in this Form, under the heading "Methods of Investment Analysis" 4(a).</p> <p>In addition to the selection strategies and fees outlined above Water Street Advisers offers three services to retail and individual clients:</p> <ol style="list-style-type: none"> 1. Consultation to determine investment preferences and portfolio allocation strategy ("Initial and Subsequent-Investment Period Consultations") <p>Water Street Advisers will survey each prospective client regarding their investment needs, financial resources and tolerance for investment risk. From this survey, I will return to the client a written confirmation of their investment-preferences and an allocation strategy for implementing an investment portfolio comprised of mutual funds.</p> <p>It is intended that this strategy will be held for a five-year Investment Period, at the end of which Water Street Advisers will perform a consultation to confirm the current status of the investment preferences and portfolio allocation strategy for a subsequent five-year Investment Period.</p> <p>There will be no fee charged for either the Initial or Subsequent-Investment Period Consultations.</p> </td> </tr> </tbody> </table>		Item of Form (identify)	Answer	Advisory Fees And Services 1 (d) (page 3, continued)	<p>My bias toward balanced portfolios comes from the analysis of the relative performance of whole populations of allocation alternatives across a series of five-year investment periods beginning in 1961. Based on this 45-year history, selecting for an allocation strategy on the prediction that market conditions will not change has been an unfortunate choice. It has been characteristic of markets over this time period that their conditions do change -- and that investors using the MPT algorithm would have been more successful in avoiding the lowest quartile of performers within a population of allocation alternatives for a subsequent five-year period if they had thrown a dart.</p> <p>In general, over this period, there has been no way to significantly better the performance of a balanced portfolio -- absent some special ability to predict the future. Additionally, my findings have been the incremental gain in investment returns arising from the activity of rebalancing ones portfolio over short time periods has not been large enough to compensate for the trading expense of such rebalancing over this timeframe.</p> <p>With this recent history in mind, my intentions will be to leave the original allocations made to create a balanced portfolio in place for at least five years ("Investment Period") -- and if these original allocations have not shifted appreciably, to leave them in place for further 5-year Investment Periods until such time as they do.</p> <p>This avoidance of the "busy-work" commonly associated with allocation management is also a "least-cost" strategy. The confidence to implement such a strategy comes from the capability to apply a standard measure of relative performance for whole populations of allocation alternatives across multiple market cycles and diverse market conditions. This is a capability that has not been considered by the investment industry to-date -- and because of this, the processes underlying this capability are novel and unique. They are protected by pending patents.</p> <p>Further information concerning the rationale for these patent filings and the processes they protect is contained later in this Form, under the heading "Methods of Investment Analysis" 4(a).</p> <p>In addition to the selection strategies and fees outlined above Water Street Advisers offers three services to retail and individual clients:</p> <ol style="list-style-type: none"> 1. Consultation to determine investment preferences and portfolio allocation strategy ("Initial and Subsequent-Investment Period Consultations") <p>Water Street Advisers will survey each prospective client regarding their investment needs, financial resources and tolerance for investment risk. From this survey, I will return to the client a written confirmation of their investment-preferences and an allocation strategy for implementing an investment portfolio comprised of mutual funds.</p> <p>It is intended that this strategy will be held for a five-year Investment Period, at the end of which Water Street Advisers will perform a consultation to confirm the current status of the investment preferences and portfolio allocation strategy for a subsequent five-year Investment Period.</p> <p>There will be no fee charged for either the Initial or Subsequent-Investment Period Consultations.</p>
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**Schedule F of
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Continuation Sheet for Form ADV Part II**

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06/16/06

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Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: Water Street Advisers, Inc.	IRS Empl. Ident. No.: 05-0482598
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Advisory Fees And Services 1 (d) (page4, continued)	<p>2. Quarterly portfolio review, evaluation and report ("Quarterly Report")</p> <p>Water Street clients will receive a Quarterly Report summarizing the performance of their portfolio relative to the average performance for the populations of investments and investment portfolios found within the five sectors of the global securities market. This summary will include an overview of current economic and market conditions, as well as the evaluation of the portfolio's performance on both a period-to-date and current-quarter basis.</p> <p>There will be no fee charged for the Quarterly Report.</p> <p>3. Annual review of investment needs, financial resources and tolerance for investment risk ("Annual Review")</p> <p>Following each twelve-month anniversary date, Water Street will survey each client regarding their investment needs, financial resources and tolerance for investment risk, and will return to the client a written comparison of the results of this survey with the stated investment preferences compiled at the beginning of the current five-year period. If this comparison indicates a significant change in client preferences, Water Street will also include recommendations for restructuring the existing portfolio strategy to better fit this change.</p> <p>There will be no fee charged for the Annual Review.</p> <p>The agreement between the retail or individual client and Water Street is an "at will" contract. If the client or Water Street wishes to terminate its agreement, either party may do so at any time by written notice to that effect.</p> <p>The client will receive an invoice each quarter with their Quarterly Review for investment management services. This bill is payable upon receipt and is computed as a percentage of the beginning-quarter value of the portfolio. If this bill remains unpaid at the time for the next Quarterly Review, Water Street will assume that the client has elected to terminate the relationship and I will send notice confirming that termination prior to the publication of the next-quarter report.</p> <p>Selecting for approximately 1% of the population of existing mutual funds creates portfolio holdings of between 50-150 funds. The investment minimums required by the sponsors of these funds produces a minimum requirement regarding portfolio size. Water Street will not initiate a portfolio management relationship if the assets available for forming this portfolio are less than \$1,000,000.</p> <p>Water Street considers the administration of the portfolio to be the responsibility of the client. I will not implement portfolio trades – nor will I receive and hold client funds or act as custodian for client assets. I will be available to advise the client on the acquisition of a third-party custodian and will arrange with that custodian for the receipt of reports necessary for me to prepare the client's Quarterly and Annual Reviews (see discussion under the heading of Investment or Brokerage Discretion 12(b) in this Form).</p> <p>The securities recommendations and portfolio strategies put forth by Water Street for retail and individual clients are based on servicing the conservative investor. In these recommendations and strategies, weight is given to maintaining the consistency of portfolio performance, as well as investment return.</p>

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Advisory Fees And Services 1 (d) (page 5, continued)	<p>Clients should be aware that this strategy is built on the evaluation of longer-term investment trends – for example, the pattern of quarter-to-quarter returns will apply only to our assessment of investment risk. Additionally, Water Street's recommendations should not be construed as representing a guarantee or warranty of future investment performance or market trends.</p> <p>These longer-term investment trends will be illustrated within the Quarterly Reviews using the tenets of <i>MPT</i> – where investment performance equals the average of the quarterly returns generated to-date for an Investment Period divided by the variance of these quarterly returns around this average. I will use the generally-accepted method of illustrating the performance of this portfolio -- charting these statistics of return and risk on a two-dimensional graph – a “mean-variance” graph as shown below.</p> <p>The performance characteristics for the five market sectors used by Water Street to devise allocation strategies will be represented on this graph by the performance characteristics of “published indices” – collections of securities whose performance as a portfolio are generally believed to represent the average return and risk available for the entire population of investments within the market sector. The S&P500 Market Index is one such published index.</p> <table border="1"> <thead> <tr> <th>Market Sector</th> <th>Population</th> <th>Index</th> </tr> </thead> <tbody> <tr> <td>Aggressive</td> <td>Small-cap, high-growth U.S. equities</td> <td>NASDAQ Market</td> </tr> <tr> <td>Above Average</td> <td>Mid-large cap U.S. equities</td> <td>S&P 500 Market</td> </tr> <tr> <td>Average</td> <td>Fixed-income securities</td> <td>Lehman Bros. Aggregate Bond</td> </tr> <tr> <td>Low Risk</td> <td>Money-market instruments</td> <td>Yield - 90 Day T Bill</td> </tr> <tr> <td>Contrarian</td> <td>Foreign and commodity equities</td> <td>MSCI-EAFE Composite</td> </tr> </tbody> </table>	Market Sector	Population	Index	Aggressive	Small-cap, high-growth U.S. equities	NASDAQ Market	Above Average	Mid-large cap U.S. equities	S&P 500 Market	Average	Fixed-income securities	Lehman Bros. Aggregate Bond	Low Risk	Money-market instruments	Yield - 90 Day T Bill	Contrarian	Foreign and commodity equities	MSCI-EAFE Composite
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Advisory Fees And Services I (d) (page 6, continued)	<p>The array of performance points for this group of five indices is used to illustrate the average investment returns available in the global market for public securities. I will draw a line connecting these points – a “market-line” -- on the mean-variance graph used within the Quarterly Reports as a benchmark measure of the market-return available at each point of risk in this global market.</p> <p>Average Annual Returns for Successive 5-Year Periods for Quarters Ending December 1996 to September 2005</p> <table border="1"> <thead> <tr> <th>Index</th> <th>Standard Deviation (X-axis)</th> <th>Average Annual Return (Y-axis)</th> </tr> </thead> <tbody> <tr> <td>90-DAY T-BILL (LOW-RISK SECTOR)</td> <td>~10</td> <td>~10</td> </tr> <tr> <td>SELECT</td> <td>~30</td> <td>~15</td> </tr> <tr> <td>LIBOR (AVERAGE SECTOR)</td> <td>~50</td> <td>~18</td> </tr> <tr> <td>SP500 (ABOVE AVERAGE SECTOR)</td> <td>~70</td> <td>~22</td> </tr> <tr> <td>HAD (AVERAGE SECTOR)</td> <td>~100</td> <td>~20</td> </tr> </tbody> </table> <p>A plot of the point of performance for a client's portfolio that appears above and to the left of this line will be considered a successful outcome – this point representing a period-to-date market return achieved at a below-market risk. This happy result is illustrated below by the example of a balanced portfolio made from my selection methodology for the series of 5-year Investment Periods ending from December 1996 to September 2005.</p> <p>Average Annual Returns for Successive 5-Year Periods for Quarters Ending December 1996 to September 2005</p> <table border="1"> <thead> <tr> <th>Portfolio</th> <th>Standard Deviation (X-axis)</th> <th>Average Annual Return (Y-axis)</th> </tr> </thead> <tbody> <tr> <td>SELECT</td> <td>~30</td> <td>~15</td> </tr> <tr> <td>LIBOR</td> <td>~50</td> <td>~18</td> </tr> <tr> <td>SP500</td> <td>~70</td> <td>~22</td> </tr> <tr> <td>HAD</td> <td>~100</td> <td>~20</td> </tr> </tbody> </table>	Index	Standard Deviation (X-axis)	Average Annual Return (Y-axis)	90-DAY T-BILL (LOW-RISK SECTOR)	~10	~10	SELECT	~30	~15	LIBOR (AVERAGE SECTOR)	~50	~18	SP500 (ABOVE AVERAGE SECTOR)	~70	~22	HAD (AVERAGE SECTOR)	~100	~20	Portfolio	Standard Deviation (X-axis)	Average Annual Return (Y-axis)	SELECT	~30	~15	LIBOR	~50	~18	SP500	~70	~22	HAD	~100	~20
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Advisory Fees And Services 1 (d) (page 7, continued)	<p>Water Street provides services as a sub-advisor to other registered investment advisers (wholesale clients) and as an advisor to corporate entities and trustees (institutional clients). These services are limited to the selection of market-sector portfolios to fulfill the investment-selection requirements for an otherwise exiting asset allocation strategy.</p> <p>As for individual and retail clients, the investments selected for these wholesale and institutional market-sector portfolios are designed to generate a pattern of investment performance identifiable with that of a "value-investor" – the characteristic signature of a value-investor being the ability to consistently generate a market return while operating at a below-market risk.</p> <p>These services select for the same types of investments – avoiding the research cost of finding value-investments by investing in mutual fund managers that have already absorbed that cost. Further information concerning these procedures is contained later in this Form, under the heading "Methods of Investment Analysis" 4(a).</p> <p>The fee schedule is 0.0125% of beginning-quarter assets (0.05% annual fee) for portfolios with beginning-quarter assets of under \$100,000,000 -- \$12,500 per quarter for portfolios with beginning-quarter assets greater than \$100,000,000. Minimum portfolio size remains \$1,000,000 for a Investment-Period beginning balance.</p> <p>As for individual and retail clients, the market-sector selections are intended to remain in portfolio for a 5-year Investment Period. The only changes anticipated to the portfolio will be to replace those funds that cease to exist as independent trusts over this Period. The agreement between the wholesale or institutional client and Water Street for services will be an "at-will" contract.</p> <p>The wholesale or institutional client receives a Quarterly portfolio review, evaluation and report ("Quarterly Report"). Included in that Report is a summary of the performance of their market-sector portfolio(s), illustrated against the benchmarks of a public index representative of the average performance characteristics of that market-sector. The graph below represents such an illustration for the five market-sector portfolios made from my selection methodology for the series of 5-year Investment Periods ending from December 1996 to September 2005.</p> <table border="1" style="margin-left: auto; margin-right: auto; width: fit-content; border-collapse: collapse;"> <caption>AVERAGE ANNUAL RETURN FOR SUCCESSIVE 5-YEAR PERIODS FOR CUMULATIVE ENDING DECEMBER 1996 TO SEPTEMBER 2005</caption> <thead> <tr> <th>Standard Deviation (X)</th> <th>SP500 (ADOVE AVERAGE)</th> <th>NASD (AGGRESSIVE)</th> <th>MSCI (CONTRARIAN)</th> <th>SELECT (CONTRARIAN)</th> <th>SELECT (AGGRESSIVE)</th> <th>T-BOND (AVERAGE)</th> <th>90 DAY T-BILL (LOW-RISK)</th> </tr> </thead> <tbody> <tr> <td>50</td> <td>~10</td> <td>~10</td> <td>~10</td> <td>~10</td> <td>~10</td> <td>~10</td> <td>~10</td> </tr> <tr> <td>100</td> <td>~20</td> <td>~20</td> <td>~20</td> <td>~20</td> <td>~20</td> <td>~20</td> <td>~20</td> </tr> <tr> <td>150</td> <td>~30</td> <td>~30</td> <td>~30</td> <td>~30</td> <td>~30</td> <td>~30</td> <td>~30</td> </tr> <tr> <td>200</td> <td>~40</td> <td>~40</td> <td>~40</td> <td>~40</td> <td>~40</td> <td>~40</td> <td>~40</td> </tr> <tr> <td>250</td> <td>~50</td> <td>~50</td> <td>~50</td> <td>~50</td> <td>~50</td> <td>~50</td> <td>~50</td> </tr> <tr> <td>300</td> <td>~60</td> <td>~60</td> <td>~60</td> <td>~60</td> <td>~60</td> <td>~60</td> <td>~60</td> </tr> <tr> <td>350</td> <td>~70</td> <td>~70</td> <td>~70</td> <td>~70</td> <td>~70</td> <td>~70</td> <td>~70</td> </tr> </tbody> </table>	Standard Deviation (X)	SP500 (ADOVE AVERAGE)	NASD (AGGRESSIVE)	MSCI (CONTRARIAN)	SELECT (CONTRARIAN)	SELECT (AGGRESSIVE)	T-BOND (AVERAGE)	90 DAY T-BILL (LOW-RISK)	50	~10	~10	~10	~10	~10	~10	~10	100	~20	~20	~20	~20	~20	~20	~20	150	~30	~30	~30	~30	~30	~30	~30	200	~40	~40	~40	~40	~40	~40	~40	250	~50	~50	~50	~50	~50	~50	~50	300	~60	~60	~60	~60	~60	~60	~60	350	~70	~70	~70	~70	~70	~70	~70
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Methods of Investment Analysis 4(a)	<p>Water Street Advisers maintains a database of mutual fund performance statistics derived from monthly updates received from Standard and Poor's & Co., Inc.</p> <p>Each fund is categorized as belonging to one of five market sectors based on the investment return and return volatility characteristics for the population of its peers appearing in the S&P database – these peers identified as those funds within the same category of declared investment objective.</p> <p>Mutual funds are selected as investments based on differences of size, expenses and past-period performance between funds within a market sector. Statistics of average performance for a market-sector population of funds over are used to construct comparative statistics for the population of available asset allocation alternatives for a series of past time periods. Asset allocation strategies are selected based on these past-period statistics.</p> <p>These methods of investment and allocation-strategy selection include processes that are based on novel insights regarding the operation of the funds markets and markets made of allocation-strategy alternatives. Because of this, these processes are unique and are protected by pending patents.</p> <p>For the activity of investment selection, these processes follow five simple rules for selecting fund managers whom are likely to be adherents of Benjamin Graham's discipline of "value-investing". These rules are applied to an analysis of the performance characteristics of the funds population within each of five market-sectors within the global market for public securities for a previous 5-year period.</p> <ol style="list-style-type: none"> 1. <u>Only the conservative win.</u> The funds market is unique within U.S. public securities markets in that differences in relative performance between securities within a market sector are demonstrated most dramatically in terms of differences in risk, not return – the strongest managers are those that manage to a common market-sector return with the least volatility. This means that the funds market is the simplest among securities markets in which to identify the value-investors – on a graph of investment performance, they are clustered in the least-risky (furthest left-hand) quadrants. However, also included in these left-hand quadrants are other, less qualified funds that must be eliminated by applying the following filters: 2. <u>Size matters.</u> In the funds market, changes in investor demand translate as changes to a fund's size – not as changes to its price. The largest funds within a market sector include those that have been recognized by investors as having managers of exceptional talent – for a manager to be selected, he cannot reside within the quadrant of smallest funds within a market sector. 3. <u>Fund-managers talk.</u> The funds market is like many others based on a specialized technical skill – the practitioner population is a small colloquial group that tends to know one another and talk. This means that points of investment performance cluster around a consensus investment strategy -- and since fund managers tend to be among the most knowledgeable about market conditions, this consensus has meaning. For a manager to be selected, he cannot be among the least populated quadrant of funds within a market sector. 4. <u>Dogs will remain dogs regardless of circumstance.</u> The value-investor does not waste his time trying to resurrect uncompetitive segments of the market. The funds market is categorized by investment objective – and since 1961, there have existed a small handful of investment-objective populations that have never been competitive regardless of market conditions. A selected manager cannot be operating under one of these investment objectives.

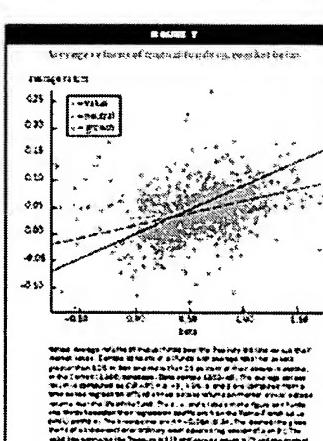
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Methods of Investment Analysis 4(a) (page 2, continued)	<p>5. <u>Cheapest is best.</u> The market is populated with funds whose expense structure supports activities not related to investment return – compensation to salesmen and the reimbursal of costs associated with administrating deferred-contribution benefits plans. By excluding these “loaded funds” – about 1/3 of fund assets – average expenses drop from 265 to 95 basis points. Since 1991, there has been no difference in performance between these groups. For a manager to be selected, he cannot be operating a loaded fund.</p> <p>These five rules arise from a novel insight about the operating dynamics of the funds market. Economists have historically lumped mutual funds in with other securities populations, such as stocks and bonds, that operate in the U.S. as an “efficient market” – one where investor demand resolves to a single “market-return” for each point of risk available in that market.</p> <p>The Capital Assets Pricing Model (CAPM) – the dominate model of market dynamics in use today – draws its “market-line” from these market-returns as they are calculated across the span of risk available within a market-sector. The CAPM assumes that the points of performance for all securities in a market-sector will conform to this line – and that any deviations can be attributed only to “transient and random error”.</p> <p>The frustration of economists with getting a population of mutual funds to operate as an efficient market – to conform to a market line -- is illustrated by the following chart excerpted from a paper published recently by John Cochrane, a finance professor at the University of Chicago School of Business.</p>  <p>Figure 7 is a scatter plot with the y-axis labeled 'Average expense ratios of diversified funds vs. standard deviation' and the x-axis labeled 'standard deviation'. The y-axis ranges from -0.50 to 0.25 with increments of 0.05. The x-axis ranges from -0.05 to 0.50 with increments of 0.10. A solid diagonal line represents the Capital Asset Pricing Model (CAPM). Data points are represented by small dots. Most points are clustered around the CAPM line, forming a tight 'cloud'. A few points are located significantly above the line, indicating funds with higher expense ratios than predicted by the CAPM given their risk level.</p>	
<p>Over time, economists such as Cochrane have become dismissive of this “cloud” -- Cochrane suggesting in his article that the ineptitude of fund management is a contributing factor to what he views as an anomaly to existing dogma:</p> <p>“The wide dispersion in Figure 7 is a bit surprising -- [it] implies that the majority of funds are not holding well-diversified portfolios ... but rather are loading up on specific bets.”</p>		

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"The wide dispersion in Figure 7 is a bit surprising --- [it] implies that the majority of funds are not holding well-diversified portfolios ... but rather are loading up on specific bets".³

³ John H. Cochrane, "New Facts in Finance", Economic Perspectives, Federal Reserve Bank of Chicago, 30(1999), page 49.

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Water Street Advisers, Inc.	801-	06/16/06

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

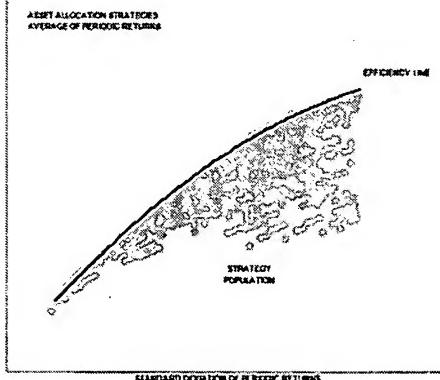
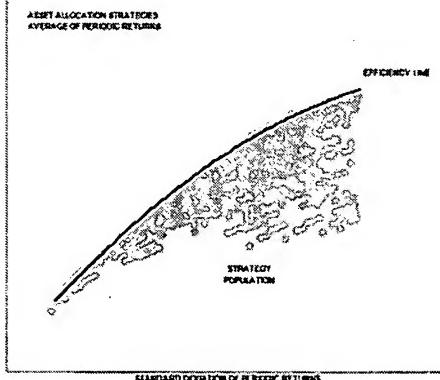
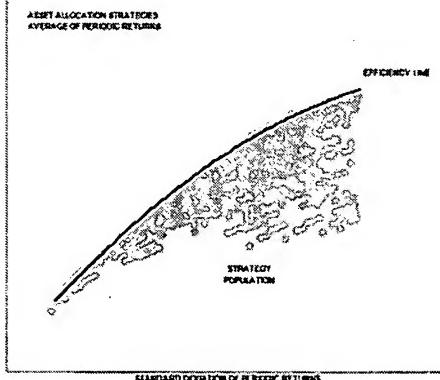
Full name of applicant exactly as stated in Item IA of Part I of Form ADV: Water Street Advisers, Inc.	IRS Empl. Ident. No.: 05-0482598
Item of Form (identify)	Answer
Methods of Investment Analysis 4(a) (page 3, continued)	<p>This has been a mistake. The cloud is real -- Congress legislating it into existence with the Investment Company Act of 1940, as their response to the trading abuses foisted on the investing public by the sponsors of mutual funds just prior to the 1929 Market Crash.</p> <p>Not only does this cloud exist -- it also has meaning. The measurements for implementing the five rules for selecting value-investors come from this cloud. Measuring for differences in investment performance among managers for a previous 5-year period, a suitably strong group of value-investors can be identified whose performance over a subsequent 5-year period will be superior to their peers.</p> <p>Because it is the nature of securities markets that conditions change, and because it is a condition of the funds market that managers who are value-investors do not always last, this selection process must be built upon a system of standard measures -- these performance differences need to be measured each quarter as an "apples to apples" comparison.</p> <p>These processes have not been anticipated by the investment industry and so they are novel -- and protected by the following pending patents.</p> <ol style="list-style-type: none"> 1. <i>Method for Evaluating Differences in the Performance of an Asset-Class Population of Book-Valued Investments</i> (PN10/777,312 [02-12-03]) A process for grouping book-valued investments within an asset class based on characteristics of past investment performance to reveal differences in the future characteristics of investment performance between the groups. 2. <i>Process to Create Market-Sector Investment Portfolio Performance Indices</i> (PN10/604,711, [08-14-02]) A process for creating indices of market-sector returns for populations of book-valued investments that are analogous to the indices of market-sector returns currently in use for populations of market-valued investments -- e.g. the S&P500 Market Index. 3. <i>Method to Evaluate Relative Investment Performance From Internal Benchmarks</i> (PN 10/910,828, [08-06-03]). A process to generate benchmarks of relative investment performance for a population of investments or investment strategies from the performance data internal to that population of investments or investment strategies. 4. <i>Method for Selecting Investments in Book-Valued Collective Investment Funds</i> (PN 10/079,022, [12-28-01]) A process to select investments based on standard differences in the concentration of points of performance for a population of book-valued collective investment funds. <p>For retail and individual clients, Water Street selects for an asset allocation strategy that balances the initial assets equally across the five market sectors outlined above. This strategy is one that by definition operates at a moderate level of risk -- specifically at a level of risk midpoint between that of the least risky and most risky allocation alternatives available for any investment period.</p> <p>Water Street tests for a client preference for risk that is a match for this strategy. If your preferred risk tolerance is either below or above this "moderate" benchmark, my investment portfolio management service will not be a suitable match for your needs.</p>

Complete amended pages in full, circle amended items and file with execution page (page 1).

**Schedule F of
Form ADV
Continuation Sheet for Form ADV Part II**

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06/16/06

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: Water Street Advisers, Inc.	IRS Empl. Ident. No.: 05-0482598				
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%; text-align: left; padding: 2px;">Item of Form (identify)</th> <th style="width: 85%; text-align: center; padding: 2px;">Answer</th> </tr> </thead> <tbody> <tr> <td style="width: 15%; vertical-align: top; padding: 2px;">Methods of Investment Analysis 4(a) (page 4, continued)</td> <td style="width: 85%; vertical-align: top; padding: 2px;"> <p>My reasons for limiting my selection of an asset allocation strategy to this balanced option is as follows:</p> <p>The last 25 years has seen a series of securities-market bubbles – periods of boom and bust – that, each in its time, have temporarily skewed the pattern of returns volatility for each market sector. The history of these events – a bubble in the money markets (1978-84), followed by one in the bond markets (1982-87), the foreign-equities markets (1985-88), the market for mid and large-cap domestic equities (1995-2000) and the market for high-growth domestic equities (1997-2001) – would suggest that for each market-sector “every dog has had its day”.</p> <p>This prominence of these bubbles has encouraged a note of speculation into the practice of selecting asset allocation strategies -- speculation based on a belief in ones ability to predict the future. Regulators actively discourage the promotion of such beliefs – so practitioners have learned to cast their predictive processes in terms of existing theoretical constructs of how the securities markets work.</p> <p>The most widely used of these recastings relies on an algorithm originally created for the Nobel-Prize winning thesis, <i>Modern Portfolio Theory (MPT)</i>.⁴ This thesis, as the founding note of current asset allocation practices, is a mathematical proof of the proposition that portfolio performance efficiency comes from asset diversification. The purpose of the algorithm was to calculate the single asset allocation strategy that was the most efficient alternative – the alternative generating the greatest average return – at each point of risk available within a population of market-sectors. These alternatives form an “efficiency line” – on a mean-variance graph, the algorithm can be used to draw a line of “winners” across the top of the performance points for a population of allocation strategies.</p>  <p>When first introduced, the MPT algorithm held two advantages for the practitioner:</p> <ol style="list-style-type: none"> 1) It took what, in the pre-computer days of the 1950's, was an impossible task of data compilation to compare thousands of available strategies and shrunk it to a single equation that could be solved with pen and pencil; and 2) It provided a solution reliant on “expert knowledge” – matrix algebra – that could create a secure and profitable service-niche for the “expert practitioner”. </td> </tr> </tbody> </table>		Item of Form (identify)	Answer	Methods of Investment Analysis 4(a) (page 4, continued)	<p>My reasons for limiting my selection of an asset allocation strategy to this balanced option is as follows:</p> <p>The last 25 years has seen a series of securities-market bubbles – periods of boom and bust – that, each in its time, have temporarily skewed the pattern of returns volatility for each market sector. 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⁴ Markowitz, Harry, *Portfolio Selection: Efficient Diversification of Investments*, John Wiley & Sons, Inc., New York, New York, 1959.

**Schedule F of
Form ADV
Continuation Sheet for Form ADV Part II**

Applicant:	SEC File Number:	Date:
Water Street Advisers, Inc.	801-	06/16/06

(Do not use this Schedule as a continuation sheet for Form ADV Part I or any other schedules.)

Full name of applicant exactly as stated in Item 1A of Part I of Form ADV:	IRS Empl. Ident. No.:
Water Street Advisers, Inc.	05-0482598
Item of Form (identify)	Answer
Methods of Investment Analysis 4(a) (page 5, continued)	<p>As a selection process, the algorithm is a bet that "winners will repeat". The equation identifies approximately 1% of the allocation alternatives available in a previous period that have beaten their peers. One can only wager that these alternatives will continue to beat their peers in the future.</p> <p>Over the last 45 years this has been an unfortunate wager. Those allocation alternatives found on an efficiency line in a previous 5-year period most often have ended up residing within the lowest quartile of their peers in terms of investment performance for a succeeding 5-year period – over 40% of the time for a series of five-year periods since 1961.</p> <p>One can sense that this may be the result given the makeup of allocation alternatives. The benefits of diversity come from matching dissimilar and offsetting patterns of periodic-return volatility -- the "winners" are those whose match is most positively sensitive to existing market conditions. It would seem likely then, that these winners would be those whose match is most negatively sensitive to changes in these conditions. And since it has been the nature of securities-market conditions that they change, it is not surprising to find a disproportionate share of efficiency-line matches, once selected, migrating to the lowest performance quartile of their allocation peers over time.</p> <p>Practitioners have tended to ignore or dismiss this persistency problem, and the MPT algorithm still remains one of the most widely accepted allocation management tools for the industry. This may be because of the analytical limits of this approach – when you can only see 1% of a population, it is hard to tell what you are missing – or because of its cachet – it is hard to recognize your shortcomings once you have found reward as an "expert". Nevertheless, as time has passed, these practitioners have found it harder to hold their audience. A generation of investor clients has developed an intuitive feel for these shortcomings and have begun to "push back" on its use.</p> <p>This has spawned an interesting phenomenon – as with the CAPM, the market has become populated with a cadre of economists still attempting to patch over the problems inherent with a flawed application of a theory, and blaming the competency of their audience for their failure. As a case in point, Richard Michaud, an economics professor at Harvard, has taken several patents on processes associated with coping with an efficiency-line selection in light of this persistency problem.</p> <p>He started an investment manager and published a book in 1998 promoting his approach – and in the preface of the book addressed his problems with getting market participants to buy into his methodology with the following dismissal of his market:</p> <p>"Markowitz has given the classic definition of portfolio optimality. Markowitz mean-variance (MV) efficiency is a convenient framework for defining portfolio optimality and for constructing optimal stock portfolios and asset allocations. A number of commercial services provide optimizers for computing MV efficient portfolios."</p> <p>"The relative low level of analytical sophistication in the culture of institutional equity management is one often-cited reason for the lack of MV optimization... the 'Markowitz optimization enigma' – the fact that many equity managers ignore MV optimization – can be largely explained without recourse to irrationality, incompetence, or politics."⁵</p>

Complete amended pages in full, circle amended items and file with execution page (page 1).

⁵ Michaud, Richard O., Efficient Asset Management, Harvard Business School Press, Boston, Massachusetts, 1998, p. xiii.

Schedule F of
Form ADV
Continuation Sheet for Form ADV Part II

Applicant: Water Street Advisers, Inc.	SEC File Number: 801-	Date: 06/16/06
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Full name of applicant exactly as stated in Item 1A of Part I of Form ADV: Water Street Advisers, Inc.	IRS Empl. Ident. No.: 05-0482598
Item of Form (identify)	Answer
Methods of Investment Analysis 4(a) (page 6, continued)	<p>The real innovations needed for resolving questions regarding the selection of asset allocation strategies are processes to measure whole populations of these strategies over time. Because market conditions change over time, these processes need to utilize a system of standardized measures – ensuring the ability to make comparisons on an “apples-to-apples” basis.</p> <p>The industry’s myopia in hanging on to the MPT algorithm opens up the opportunity to create these processes as novel and unique. Having taken this opportunity, I have applied for the following patents:</p> <ol style="list-style-type: none"> 1) <i>Process for the Selection and Evaluation of Investment Portfolio Asset Allocation Strategies</i> (PN 10/604,699, [08-14-03]) Process to generate standardized measurements of comparative performance statistics for whole populations of asset allocation alternatives 2) <i>Process to Audit the Performance of Investment Portfolios</i> (PN 10/605,293 [09-23-03]) Process to rank the future utility of an asset allocation choice based on differences found between the characteristics of its performance and those of a whole-population of allocation alternatives for a prior time period. <p>These processes can be used to provide confirming empirical evidence of the inadequacies of the MPT algorithm as a selection mechanism. They also can illustrate that since 1961, once each market-sector “dog has had its day” there exists little performance advantage to be had between allocation strategies available at each point of risk. Absent the existence of booms and busts in the market – and absent any special ability to anticipate these booms and busts -- it makes little sense to select for any alternative but a balanced portfolio.</p>

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Item of Form (identify)	Answer																																	
Education and Business Standards (5)	<p>Water Street Advisers is a single-person firm at this point in time. If and when I hire other investment advisers I will impose general standards of education and experience that, at the least, will mirror my own.</p> <p>I will require an undergraduate degree and/or advanced degree in business or economics or a commensurate level of investment industry and financial market experience, as well as registration as an Investment Adviser Representative. Registering as an Investment Adviser Representative involves sitting for and passing the NASD Uniform Investment Adviser Law Examination.</p>																																	
Education and Business Background (6)	<p>James A. Chamley, Jr. - President Date of Birth - 02-22-05</p> <table> <tbody> <tr> <td>1994 - present</td> <td>President</td> <td>Water Street Advisers, Inc.</td> <td>Barrington, RI</td> </tr> <tr> <td>1994-1998</td> <td>Chief Financial Officer</td> <td>Advanced Financial Services</td> <td>Newport, RI</td> </tr> <tr> <td>1993 - 1997</td> <td>President</td> <td>The Funds Partnership</td> <td>Barrington, RI</td> </tr> <tr> <td>1984 - 1992</td> <td>Vice President</td> <td>Fleet Financial Services Corporation</td> <td>Providence, RI</td> </tr> <tr> <td>1982 - 1984</td> <td>Special Assistant</td> <td>Board of Governors, Federal Reserve</td> <td>Washington, D.C.</td> </tr> <tr> <td>1981-1982</td> <td>Program Manager</td> <td>American Bankers Association</td> <td>Washington, D.C.</td> </tr> <tr> <td>1977-1981</td> <td>Senior Account Manager</td> <td>Burroughs Corporation, Inc.</td> <td>Washington, D.C.</td> </tr> <tr> <td>1975</td> <td>B.A. in Economics</td> <td>Washington University</td> <td>St. Louis, MO</td> </tr> </tbody> </table>		1994 - present	President	Water Street Advisers, Inc.	Barrington, RI	1994-1998	Chief Financial Officer	Advanced Financial Services	Newport, RI	1993 - 1997	President	The Funds Partnership	Barrington, RI	1984 - 1992	Vice President	Fleet Financial Services Corporation	Providence, RI	1982 - 1984	Special Assistant	Board of Governors, Federal Reserve	Washington, D.C.	1981-1982	Program Manager	American Bankers Association	Washington, D.C.	1977-1981	Senior Account Manager	Burroughs Corporation, Inc.	Washington, D.C.	1975	B.A. in Economics	Washington University	St. Louis, MO
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Other Business Activities (7)	<p>Water Street is actively involved in consulting with business entities regarding financial and accounting issues. These issues include the drafting of financial and strategic plans, the implementation of financial controls and provision of accounting and bookkeeping services. Water Street will not consult, advise or otherwise involve itself with the acquisition of either debt or equity financing, the investment of financial assets, the acquisition or divestiture of operating units or communications with financial markets for these entities.</p> <p>Clients for these other business activities will acknowledge these limits in writing upon initiation of any consulting relationship.</p>																																	

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Item of Form (identify)	Answer
Participation or Interest in Client Transactions (9)	<p>Water Street Advisers does not maintain positions or interests in securities, does not act as a broker and does not engage in principal transactions with clients.</p> <p>Occasionally, Water Street's principals and employees may buy and sell securities that Water Street recommends to its clients. Water Street's principals and employees may not buy or sell until after its clients have received these recommendations. Trading records of principals and employees are reviewed quarterly.</p> <p>Water Street has an established written policy for principals and employees regarding personal securities transactions and compliance with insider trading requirements. Anticipating the time when Water Street becomes more than a single-person firm, this written policy provides for the appointment of a compliance officer and pre-clearance of certain trades by principals and employees, among other things. Principals and employees must submit a quarterly trading log.</p>
Investment or Brokerage Discretion 12(b)	<p>Water Street Advisers does not effect trades, maintain securities accounts, offer transaction services or retain custody of client funds or investments. It advises clients to find these services from an third-party custodian -- either one acting as an independent, or one whom is affiliated with a securities broker.</p> <p>My basis for recommending custodians affiliated with securities brokers is my experience with the practice of securities brokers to aggressively compete against independent trustees for their existing clients in terms of price and convenience -- in most instances offering lower prices for transaction and account maintenance services and more convenience in terms service location and account access than clients have historically enjoyed with existing custodial firms. At the vanguard of this competition are the discount brokerage firms -- and this leads me to recommend that a client first consider using a discount brokerage firm for these services.</p> <p>Water Street Advisers does not require its clients to use a specific custodial firm, but makes available a list of national and regional discount brokers, as well as bank-affiliated trust departments. We do not receive complimentary research, products, services or anything else of value from the securities brokerage firms or banks contained on this list.</p>

Complete amended pages in full, circle amended items and file with execution page (page 1).

June 26, 2006

Department of Business Regulation
Securities Division
122 Richmond Street – Suite 232
Providence, RI 20903-4232

Dear Madam or Sir,

Please find enclosed revisions to the Form ADV-part II for Water Street Advisers, Inc. dated June 16, 2006. There are two copies of these revisions – one marked up to show the revisions and one a finished copy. Also included with these revisions is a signed Execution Page.

Thank you for your help in this matter. Please let me know if in review of the enclosed materials questions or issues arise.

Sincerely,

James Charnley
President

Enclosures